

# S U M M A R Y M I N U T E S

REGULAR MEETING OF THE AUDIT OVERSIGHT COMMITTEE  
ORANGE COUNTY, CALIFORNIA



*Thursday, November 12, 2009, 2:00 p.m.*

HALL OF ADMINISTRATION  
333 Santa Ana Blvd., **5th Floor**  
**Conference Room A**  
Santa Ana, California

**Supervisor Patricia Bates**  
Member

**Supervisor Janet Nguyen**  
Member

**David Sundstrom**  
Chairman

**Thomas G. Mauk**  
Member

**Dr. David Carlson**  
Vice Chairman  
Public Member

**Chriss Street**  
Ex-Officio Member (non-voting)

ATTENDANCE: David Sundstrom, Chriss Street, Bob Franz (Proxy for Tom Mauk), Janet Nguyen, Don Hughes (Proxy for Pat Bates), Dave Carlson

EXCUSED:

PRESENT: Director of Internal Audit  
County Counsel:  
Clerk:

Dr. Peter Hughes  
Ann Fletcher  
Renee Aragon

**2:00 P.M.**

1. Roll Call

Internal Audit Department: Peter Hughes, Eli Littner, Ken Wong; Auditor-Controller and staff: David Sundstrom, Shaun Skelly, Megan Nguyen, Colin Hoffmaster, Nancy Ishida, Treasurer-Tax Collector: Chriss Street and Paul Gorman; County Executive Office: Bob Franz (Proxy received for Tom Mauk) and Michelle Zinc; County Counsel Office: Ann Fletcher; Second District staff: Lindsay Brennan; Vavrinek, Trine, Day & Co.: Kevin Pulliam and Roger Alfaro;

Mr. Sundstrom, Chairman, requested if written proxies were presented for the members absent and if the proxies for the Supervisors were allowed per the Bylaws. Ms. Aragon, Clerk, responded that written proxies were presented and that they were allowed per the Bylaws.

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2. Approve Audit Oversight Committee Minutes of September 2, 2009  
VOTE: Motion- Mr. Sundstrom, Second-Franz (proxy for Mauk), Carlson-Yes, Hughes (proxy for Bates)-abstain, Nguyen-abstain  
**Approved with the correction to page 5, paragraph 4.**

Mr. Street referred to page 5, paragraph 4, of the September 2, 2009 minutes to confirm that the Members were happy with the language. Mr. Sundstrom stated he had one exception and requested the minutes be corrected to more closely reflect the needs of government. The September 2, 2009 minutes, page 5, paragraph 4 were corrected to read: "more closely reflected the needs of government."

Mr. Street requested clarification on page 7 regarding auditing the CFDs. He asked if all the CFDs would be audited or only the 16 under the County. Mr. Sundstrom responded only those under the County. It was stated the scope of the audit was for the 6 CFDs in Ladera Ranch. No changes were made to the minutes regarding the issue.

3. Approve Audit Oversight Committee Minutes of October 14, 2009  
VOTE: Motion- Franz (proxy for Mauk), Second-Nguyen, Sundstrom-Yes, Carlson-Yes, Hughes (proxy for Bates)-abstain  
**Approved with corrections to page 4, paragraph 6, item 2 and page 5, item 7**

Supervisor Nguyen referred to page 4, paragraph 6, item 2. She clarified her position she did not support any augmentation to IAD budget apart from the budget process. The term Supervisor Nguyen agreed was stricken from the minutes on Page 4, paragraph 6, item 2.

Supervisor Nguyen referred to page 5, item 7. She clarified Members of the Board were not selected based on their financial expertise or background or any certain degrees by the voters.

4. Receive Status of the Serpentine Funding Limited P-T Notes (formerly Whistlejacket SIV) (continued from AOC 9/17/08 Item 6, 5/29/08 Item 5, 2/28/08 Items 6 and 8, 12/11/09 Item 3, 3/25/09 Item 4, 5/27/09 Item 3, 9/2/09 Item 4)  
VOTE: Motion- Franz (proxy for Mauk), Second-Sundstrom, Nguyen-Yes, Carlson-Yes, Hughes (proxy for Bates)-Yes

Mr. Gorman presented a hand-out and stated Serpentine Funded Limited PT Notes was the restructured Whistlejacket that was in receivership. He added the Serpentine Funding Limited was not in receivership and it collected principal and interest payments on the underlying portfolio securities. The Note called for monthly payments that were distributions of principal and interest to all of the holders of the PT notes based upon the collections received in the previous month. Mr. Gorman referenced page 1 of handout that detailed the progress of the original face value of Whistlejacket of \$80 million down to the unrecovered balance of \$49.7 million including the dates of all payments received to that date. Mr. Gorman stated to date, \$30,000,818 was applied against the Whistlejacket Note. He stated a small amount of interest applied because that small amount of interest was already apportioned out to pool participants and the balance was applied to principal.

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Mr. Gorman stated they received a monthly file that detailed information about securities and their credit ratings. He stated he summarized the portfolio credit ratings as of October 30, 2009. The information was provided by the Bank of New York Mellon. He stated that 90% of assets were rated A or better. He added some were rated BBB which were still investment grade 2.7% of the Serpentine investments were below investment grade. Mr. Gorman stated they were working with Auditor-Controller/Financial Reporting on the draft of the Note Disclosures and responding to questions raised by the Internal Audit Department. He stated that as they received better information on the pricing they could bring that information back, but currently the information was incomplete.

5. Approve OC Internal Audit Department Status Report for Period July 1, 2009 through September 30, 2009 and Executive Summaries of Audit Finding Summaries for the Period July 1, 2009 through September 30, 2009  
VOTE: Motion- Franz (proxy for Mauk), Second-Nguyen, Sundstrom-Yes, Carlson-Yes, Hughes (proxy for Bates)-Yes  
**Approved.**

Dr. Hughes stated the Status Report reflected the activity of the audit plan for the first quarter. Dr. Hughes stated the department was on schedule to complete the audit plan with the exceptions noted in the Milestone column. He pointed out that they have had to make some substitutes due to budget cuts and Board and AOC directives and requests as indicated in the Status Report.

Dr. Hughes noted that his department had been subject to larger than average budget cuts over the past year and a half and noted the actual and forecasted budget reduction was resulting in the loss of several positions. He stated that if they progressed as projected, it would possibly result in a loss of 5 positions since 2000 or a 1/3 reduction from the based year of 2000. Mr. Sundstrom noted that 2 of the 5 FTE loss from Internal Audit Department were transferred to him when he decided to conduct the Treasury Fund Audits instead of continuing to use IAD. Dr Hughes noted that this was correct, but that he could have still used those 2 FTEs to audit other high risk areas. Mr. Sundstrom said it was a very tough time for everyone but that he did not see any reason why the AOC should recommend to the Board any budget augmentations for IAD. Mr. Street agreed and stated the TreasurerTax Collector was down from 108 to 83 FTEs. Mr. Franz suggested Dr. Hughes focus on the current 09-10 budget rather than projecting out. Mr. Franz stated it was uncertain how long the budget uncertainty would remain.

Dr. Hughes stated the Charter required him to report the status of budget cuts and their possible impact to the Committee and so he was fulfilling his reporting requirement. He did say that his department could be viewed as a baseball team that is supposed to have 9 players to cover the field but now only have 7. The fact is that they can still play the game but some balls are going to get through that would not have in the past.

He stated he would continue to do his best to provide quality audit services and coverage of the highest risk areas but noted that the coverage and frequency of audits of lesser risks would be reduced. Supervisor Nguyen suggested that if he had specific budget requests, he should take them directly to the Board for their deliberation.

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Mr. Sundstrom stated he agreed with Mr. Street that if areas of critical risks were identified by Dr. Hughes that he could not audit due to these budget cuts he should bring them to the AOC for deliberation. Dr. Hughes stated he would evaluate the situation to see if he should present a report.

6. Approve External Audit Coverage 1<sup>st</sup> Quarter Status Report FY 09/10  
VOTE: Motion-Nguyen, Second-Franz (proxy for Mauk), Sundstrom-Yes, Carlson-Yes, Hughes (proxy for Bates)-Yes  
**Approved.**

Dr. Hughes stated there were no material issues to report for the quarter.

7. Discuss and approve new Audit Oversight Committee Charter  
**Continued to Special Meeting – December 10, 2009**

Mr. Sundstrom stated discussion began on the issue two meetings ago. He presented his first attempt of a draft AOC charter for discussion. He presented a hand-out as an amendment to the draft AOC charter on page 4 extending to page 5 adding that recognition of additional reporting on mandated audits to be included. Mr. Sundstrom stated that the item was presented as an introduction and would seek approval later.

Supervisor Nguyen referenced page 1, 2.1. She stated as a Member of the Board of Supervisors she was uncomfortable with the language. Two Members of the Board sit on the AOC and she felt it could be a violation of the Brown Act. She had not agreed that the Board of Supervisors should be looking at the internal controls of each individual department. Supervisor Nguyen requested removing internal controls from that section.

Mr. Sundstrom asked what the Brown Act issues would be. He stated the section was to charge the AOC with the responsibility of general oversight of internal control processes in accounting and assist the Board in its decision making process. It was not intended to usurp the Boards authority beyond a reporting process. Mr. Sundstrom stated he had not wanted the audit process to be directing county staff to do anything. He stated it would not be good in terms of independence for the function or the AOC. Supervisor Nguyen said she was not supportive of current language. Mr. Sundstrom stated the internal control of the County was, by law, shared a bit. The financial internal control, by law, is specifically assigned to the Auditor Controller, however it is included under the general powers of Board of Supervisors. He was trying to clarify the responsibilities in this section.

Supervisor Nguyen referenced Page 2, 4.4. She requested that the Board Members on the AOC be able to use a proxy. She noted that specific Board positions had been removed (i.e., the Chair and the Vice Chair had been replaced by two member of the Board as selected by the Board Chair) and requested these positions on the AOC be reinstated. She also stated all AOC members should be able to use proxies including the Supervisors. Mr. Sundstrom stated his reason was that proxies specified for the other officials would have extensive experience or expertise to make them effective proxies. He stated the CEO/CFO was an example. He said both had experience and intimate knowledge of the County. He felt EA's weren't necessarily in their positions for long periods of time and not necessarily at the same level although there were exceptions. As an alternative, Mr. Sundstrom suggested a chief of staff as a proxy.

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Supervisor Nguyen stated his reason was unfair. She stated if she delegated to a proxy that person would convey her position and only deliver her comments. She added Policy Advisors (EAs) were knowledgeable. Supervisor Nguyen stated she was responsible ultimately for what her staff said. That person would deliver the comments on her behalf.

Mr. Street suggested the point by point items would take an extended length of time and edits from each AOC member and instead should be received and compiled into one document for consideration at a future meeting. Supervisor Nguyen stated she had a few more items of concern.

Mr. Sundstrom stated he would collect the comments and if possible provide a red-line document at a future meeting. Mr. Franz asked if the red-line would be from the original charter or Mr. Sundstrom's version. Mr. Sundstrom stated it would be from his document. Mr. Franz stated there was difficulty in comparing what major changes were made between the old and new. Mr. Franz stated it would be helpful to highlight the significant changes. Mr. Sundstrom said he would highlight new concepts without having to cross-reference old concepts.

Mr. Sundstrom asked County Counsel Ann Fletcher if they were permitted to receive the information as requested. Ms. Fletcher stated she had to clarify the legality of the request under the Brown Act and would notify the Clerk to inform the AOC members on how to proceed.

Mr. Franz moved to continue the item, Supervisor Nguyen seconded.

NOTE: The Clerk later relayed to each member that comments could NOT be lawfully be received as recommended that the items must be deliberated in public forum during a future regular or special meeting of the AOC. A special AOC meeting was scheduled and held on December 10, 2009.

**Public Comments –  
No comments were made by the public.**

ADJOURNED: The meeting adjourned at 2:54 p.m.

**NEXT MEETING:**

December 10, 2009, 3:00 p.m., Special Meeting